



UNIVERSITY  
OF  
JOHANNESBURG

## Department of Commercial Accounting

# Financial Accounting 3B

SUBJECT CODE: FAC33B3/FAC3BB3

## Final Assessment Opportunity 2015

Date: 31 October 2015

Time: 180 minutes

Marks: 100

**Assessors:** S Adam  
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**Internal Moderator:** Mr HS van der Watt

**External Moderator:** Ms F Ngwenya

### INSTRUCTIONS:

This paper consists of **8** pages (including the cover page).

Answer all questions. **Show all calculations and workings clearly.**

Start each question on a new page in your answer book.

Silent, non-programmable calculators may be used.

Where applicable, round all calculations to the nearest Rand.

Question	Topic	Marks	Time
1	Theory – Various	10	18 minutes
2	Statement of cash flows	20	36 minutes
3	EPS & Financial Instruments	15	27 minutes
4	Consolidations	25	45 minutes
5	Consolidations	22	40 minutes
6	Financial statement analysis	8	14 minutes
		<b>100</b>	<b>180 minutes</b>

**Question 1**

**(15 marks)**

1.1 Fill in the missing word/s: (4)

In certain instances, a company may buy back its own shares from its shareholders. This may only be done, however, subject to sections 46 and 48 of the Companies Act. In terms of section 46:

- (a) No distribution may be made to shareholders unless there is a -  
\_\_\_\_\_ to do so.
- (b) The board has authorised the distribution by resolution and the \_\_\_\_\_  
will be met afterwards.
- (c) After \_\_\_\_\_ the \_\_\_\_\_ buy-back, \_\_\_\_\_ there \_\_\_\_\_ must \_\_\_\_\_ be  
\_\_\_\_\_

1.2 State whether the following sentences are true or false: (6)

- a. One of the benefits of the statement of cash flows is to enable users to assess the liabilities of the company's cash flows.
- b. Operating activities are the principal revenue-producing activities of the entity.
- c. Financial Statement analysis is useful to all the following users: Investors, debtors, employees, managers, stock market analysts and auditors.
- d. Horizontal analysis is a type of financial statement analysis that helps to identify any large or unusual fluctuations.
- e. Headline Earnings per Share (HEPS) is the share of profits for the reporting period attributable to ordinary (Class A) shareholders, including amounts that relate to re-measurements that do not relate to the operating or trading performance of the entity.
- f. An entity shall prepare consolidated financial statements that include the entity and all Special Purpose Entities that are controlled by the entity.

**[10]**

**Question 2****(20 marks)**

Martmass (Pty) Ltd is a large retailing company that has branches all over South Africa. Their main form of business is the buying and reselling products to the general public. The following information related to the reporting period ended December 2015.

	R
Accounts receivable (01/01/2015)	6 000 000
Accounts receivable (31/12/2015)	1 400 000
Inventory (01/01/2015)	9 500 000
Inventory (31/12/2015)	14 500 000
Accounts payable (01/01/2015)	13 500 000
Accounts payable (31/12/2015)	9 500 000
Bad debts	1 200 000
Credit sales	22 200 000
Proceeds on disposal of motor vehicle	200 000
Depreciation on motor vehicle (up to December)	150 000
Other operating expenses	22 250 000
Interest received	150 000
Tax receivable (01/01/2015)	4 500 000
Tax payable (31/12/2015)	9 500 000

**Additional Information:**

- The credit sales constituted 20% of total sales.
- Cost of sales is 50% of total sales.
- A motor vehicle was bought on the 1<sup>st</sup> of January 2015 and sold at the end of the year.
- Depreciation on motor vehicles are calculated on a 3 year straight line basis (there is no residual value).
- Other expenses include depreciation.
- The tax expense for the year amounted to R14 500 000.
- The profit before tax for the period was R33 400 000.

**REQUIRED:**

Present the Cash Flows from Operating Activities section of the Statement of Cash flows for Martmass (Pty) Ltd for the reporting period ended 31 December 2015.

(Show all calculations)

**[20]**

**Question 3**

**(15 marks)**

Fire (Pty) Ltd, "Fire", is a logistics company which has had troubles due to the rising fuel costs as well as the uncertainty in the economy. As a result, shareholders have grown nervous and numerous restructurings have taken place.

The company has a 31 December reporting period end.

On 1 January 2013, Fire had 60 000 Class A and 20 000 cumulative 10% Class B shares in issue. On 1 July 2013, 30 000 more Class A shares were issued in an attempt to improve the entity's liquidity.

On 1 May 2014 Fire issued another 30 000 Class A shares in a further attempt to improve liquidity.

During August of 2014, oil prices started deteriorating significantly so a resolution was passed by the directors and a share consolidation took place where every 5 Class A shares were converted to 2 Class A shares.

Fire generated profits after tax of R850 000 and R600 000 for the 2014 and 2013 years respectively.

The Class B shares had a face value of R12 each.

**REQUIRED:**

3.1 Calculate the basic earnings per share of Fire (Pty) Ltd for the reporting periods ended 31 December 2014 as well as the comparative figure for the reporting period ended 31 December 2013. Show all workings.

**[15]**

**Question 4**

**(25 marks)**

Glam (Pty) Ltd has been designing and selling wedding gowns and dresses to clients in and around Johannesburg for the past 3 years. The company is performing well and has in the past also invested in the equity of Smart (Pty) Ltd.

Glam (Pty) Ltd has acquired 52 000 shares in Smart (Pty) Ltd on the 30 June 2013 for R1 750 000. On this date Smart (Pty) Ltd had 70 000 Class A shares in issue, a share capital of R500 000 and retained earnings of R250 000 and all the assets and liabilities of Smart (Pty) Ltd were considered to be at their fair value.

Glam (Pty) Ltd has also adopted the accounting policy of measuring its investments in financial instruments at fair value through profit or loss. The fair value of Glam (Pty) Ltd's investment in Smart (Pty) Ltd was R1 800 000 on 30 June 2014.

Glam (Pty) Ltd made a profit of R400 000 and declared and paid dividends of R80 000 on 30 June 2015. Smart (Pty) Ltd made a profit of R220 000 and declared and paid dividends of R50 000 on 30 June 2015.

The statements of financial position of the two companies as at 30 June 2015 are as follows:

	<b>Glam (Pty) Ltd</b>	<b>Smart (Pty) Ltd</b>
<b>ASSETS</b>		
Property, plant and equipment	700 000	979 000
Investment in Smart (Pty) Ltd	1 900 000	-
Inventory	500 000	1 156 000
Trade Receivables	130 000	300 000
Loan – Smart (Pty) Ltd	1 200 000	-
Bank	215 000	2 320 000
	<b>4 645 000</b>	<b>4 755 000</b>
<b>EQUITY AND LIABILITIES</b>		
Share capital (Glam = 100 000 Class A shares, Smart = 70 000 Class A shares)	1 000 000	500 000
Retained earnings	1 645 000	1 055 000
Loan – Glam (Pty) Ltd	-	1 200 000
Long term loans	2 000 000	1 990 000
	<b>4 645 000</b>	<b>4 755 000</b>

Glam (Pty) Ltd had an opening balance of Retained Earnings of R1 325 000. Glam (Pty) Ltd issued 10 000 shares on 1 June 2015 for R100 000 and Smart (Pty) Ltd did not issue any shares.

**REQUIRED:**

4.1 Prepare the analysis of owner's equity for the Glam Smart Group for the reporting period ended 30 June 2015. (9)

4.2 Prepare the consolidated Statement of Changes in Equity for the Glam Smart Group for the reporting period ended 30 June 2015. (16)

**Show ALL workings.**

**[25]**

**Question 5**

**(20 marks)**

On 1 July 2009 Buyco (Pty) Ltd acquired 160 000 shares in Boughtco (Pty) Ltd at a cost of R500 000. On this date Buyco (Pty) Ltd had 500 000 Class A shares in issue and Boughtco (Pty) Ltd had 200 000 Class A shares in issue. Neither company has issued any shares since then.

The following is an extract of Boughtco (Pty) Ltd's Statement of Financial Position as at 30 June 2009:

Share capital	R300 000
Retained earnings	R280 000
	<u>R580 000</u>

The following is an extract from the accounting records of the two companies at 30 June 2011:

	<u>Buyco (Pty)</u> <u>Ltd</u> R	<u>Boughtco</u> <u>(Pty) Ltd</u> R
<b>Debits</b>		
Property, plant and equipment	290 000	330 000
Investment in Boughtco (Pty) Ltd	560 000	-
Trade receivables	210 000	140 000
Bank	60 000	242 000
Inventories	140 000	330 000
Income tax expense	90 000	64 000
Dividends declared	50 000	24 000
	<u>1 400 000</u>	<u>1 130 000</u>
<b>Credits</b>		
Share capital	400 000	300 000
Retained earnings: SoFP (1 July 2010)	450 000	466 000
Mark-to-market reserve: SoFP (1 July 2010)	60 000	-
Creditors	130 000	210 000
Profit before tax	360 000	154 000
	<u>1 400 000</u>	<u>1 130 000</u>

**REQUIRED:**

- 5.1 Prepare the pro-forma journal entries for the consolidation of the Buyco Group for the year ended 30 June 2011, as far as the information above allows. Journal narrations are not required. (14)
- 5.2 Prepare the consolidated statement of profit or loss and other comprehensive income for the Buyco Group for the year ended 30 June 2011, as far as the information above allows. (6)

Comparatives are NOT required.

**[20]**

**Question 6****(8 marks)**

Furniture 'R Us is a furniture retailer, and is listed on the JSE since 1997. The company has shown stable growth due to opening new stores, as well as good growth in older stores. You are a specialist in Turnaround Management and the CEO approached you for advice. He feels the company is not profitable enough and will appreciate any advice. You receive the following abstracted audited information for the reporting period ended December 2015:

**STATEMENT OF FINANCIAL POSITION**

	<b>2015</b> R'000	<b>2014</b> R'000
<b>EQUITY AND LIABILITIES</b>		
<b>Equity and Reserves</b>		
Share capital	25 000	25 000
Share premium	26 400	26 400
13% Convertible preference shares	15 000	15 000
Retained earnings	53 810	32 450
Deferred Tax	290	190
<b>Non-current Liabilities</b>		
Long term loan	8 000	8 000
12% Redeemable preference shares	30 000	30 000
<b>Current Liabilities</b>		
Bank overdraft (25%)	43 092	-
Creditors	65 820	11 971
SARS	-	250
Shareholders for Dividends	4 000	1 800
<b>Total Equity and Liabilities</b>	<b>271 412</b>	<b>150 61</b>

**ASSETS****Non-current Assets**

Fixed assets	105 848	70 560
Investments	5 000	5 000

**Current Assets**

Bank	-	27 500
Inventory	58 902	15 345
Debtors	101 664	32 456
<b>Total Assets</b>	<b>271 412</b>	<b>150 861</b>

**STATEMENT OF COMPREHENSIVE INCOME**

Sales	428 634	190 021
Gross profit	201 825	110 234
Net profit before interest and tax	72 093	40 217
Finance costs	15 573	4 800
Net profit before tax	56 520	35 417
Tax	16 391	10 271
<b>Net profit</b>	<b>40 129</b>	<b>24 146</b>

After looking at the information, you had a meeting with the CEO and become aware of the following:

1. The shareholders for dividends consist of 20% (2014:20%) of the declared dividends. The remaining 80% has already been paid.
2. Inventory and debtors reflect what is considered average levels for the year.
3. The convertible preference shares are convertible at the discretion of the board of directors.
4. The board of directors regards non-interest bearing debt to be part of assets.
5. The growth in fixed assets is due to the opening of new branches in South Africa. Most properties are used on a finance lease basis, but all the furniture and equipment are owned by Furniture 'R Us.
6. Only 10% of sales are for cash, 90% of sales are on the "Furniture 'R Us Care Plan", a credit plan which allows a 90 day interest free payback period.

**REQUIRED:**

Discuss the relevant financial ratios for Furniture 'R Us for the reporting periods 2014 to 2015 and give suggestions for improvements where necessary:

- Debt Management (8)

**[8]**